
Introduced by Senator Hollingsworth

December 2, 2002

An act to amend Section 17041 of, to add Section 17063.1 to, and to repeal Chapter 2.1 (commencing with Section 17062) of Part 10 of, the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 4, as introduced, Hollingsworth. Personal income taxes: rates: reduction.

The Personal Income Tax Law imposes a tax upon taxable income at various rates depending upon the amount of that income, and also imposes an alternative minimum tax based upon specified tax preference items.

This bill would, commencing with taxable years beginning on or after January 1, 2003, reduce all marginal tax rates, as provided, and would eliminate the tax on taxable income and the alternative minimum tax for taxable years beginning on or after January 1, 2007.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 17041 of the Revenue and Taxation
- 2 Code is amended to read:
- 3 17041. (a) There shall be imposed for each taxable year upon
- 4 the entire taxable income of every resident of this state ~~who is not~~
- 5 ~~a part-year resident~~, except the head of a household as defined in

Section 17042, taxes in the following amounts and at the following rates upon the amount of taxable income ~~computed for the taxable year as if the resident were a resident of this state for the entire taxable year and for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions:~~

If the taxable income is:	The tax is:
Not over \$3,650	1% of the taxable income
Over \$3,650 but not	
over \$8,650	\$36.50 plus 2% of the excess over \$3,650
Over \$8,650 but not	
over \$13,650	\$136.50 plus 4% of the excess over \$8,650
Over \$13,650 but not	
over \$18,950	\$336.50 plus 6% of the excess over \$13,650
Over \$18,950 but not	
over \$23,950	\$654.50 plus 8% of the excess over \$18,950
Over \$23,950	\$1,054.50 plus 9.3% of the excess over \$23,950

(b) ~~(1)~~—There shall be imposed for each taxable year upon the taxable income of every nonresident or part-year resident *that is derived from sources in this state*, except the head of a household as defined in Section 17042, a tax ~~as calculated in paragraph (2).~~

~~(2) The tax imposed under paragraph (1) shall be calculated by multiplying the “taxable income of a nonresident or part-year resident,” as defined in subdivision (i), by a rate (expressed as a percentage) equal to the tax computed under subdivision (a) on that shall be equal to the tax computed under subdivision (a) as if the nonresident or part-year resident were a resident multiplied by the ratio of California adjusted gross income to total adjusted gross income from all sources. For purposes of computing the tax under subdivision (a) and gross income from all sources, the net operating loss deduction provided in Section 172 of the Internal Revenue Code, as modified by Section 17276, shall be computed as if the taxpayer was a resident for all prior years.~~

(c) *There shall be imposed for each taxable year upon the entire taxable income of the nonresident or part-year resident as if the nonresident or part-year resident were a resident of this state for the taxable year and as if the nonresident or part-year resident were a resident of this state for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by the amount of that income.*

~~(c)~~ There shall be imposed for each taxable year upon the entire taxable income of every resident of this state who is not a part-year resident for that taxable year, when the resident is the head of a household, as defined in Section 17042, taxes in the following amounts and at the following rates upon the amount of taxable income computed for the taxable year as if the resident were a resident of the state for the entire taxable year and for all prior taxable years for carryover items, deferred income, suspended losses, or suspended deductions:

If the taxable income is:	The tax is:
Not over \$7,300	1% of the taxable income
Over \$7,300 but not over \$17,300	\$73 plus 2% of the excess over \$7,300
Over \$17,300 but not over \$22,300	\$273 plus 4% of the excess over \$17,300
Over \$22,300 but not over \$27,600	\$473 plus 6% of the excess over \$22,300
Over \$27,600 but not over \$32,600	\$791 plus 8% of the excess over \$27,600
Over \$32,600	\$1,191 plus 9.3% of the excess over \$32,600

~~(d) (1)~~ There shall be imposed for each taxable year upon the taxable income of every nonresident or part-year resident *that is derived from sources within this state* when the nonresident or part-year resident is the head of a household, as defined in Section 17042, a tax ~~as calculated in paragraph (2).~~

~~(2) The tax imposed under paragraph (1) shall be calculated by multiplying the “taxable income of a nonresident or part-year resident,” as defined in subdivision (i), by a rate (expressed as a percentage) equal to the tax computed under subdivision (a) on the entire taxable income of the nonresident or part-year resident as if the nonresident or part-year resident were a resident of this state for the taxable year and as if the nonresident or part-year resident were a resident of this state for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by the amount of that income that shall be equal to the tax computed under subdivision (c) as if the nonresident or part-year resident were a resident multiplied by the ratio of California adjusted gross income to total adjusted gross income from all sources. For purposes of computing the tax under subdivision (c) and gross income from all sources, the net operating loss deduction provided in Section 172 of the Internal Revenue Code, as modified by Section 17276, shall be computed as if the taxpayer was a resident for all prior years.~~

(e) There shall be imposed for each taxable year upon the taxable income of every estate, trust, or common trust fund taxes equal to the amount computed under subdivision (a) for an individual having the same amount of taxable income.

(f) The tax imposed by this part is not a surtax.

(g) (1) Section 1 (g) of the Internal Revenue Code, relating to certain unearned income of minor children taxed as if the parent’s income, shall apply, except as otherwise provided.

(2) Section 1(g)(7)(B)(ii)(II) of the Internal Revenue Code, relating to income included on parent’s return, is modified, for purposes of this part, by substituting “1 percent” for “15 percent.”

(h) For each taxable year beginning on or after January 1, 1988, the Franchise Tax Board shall recompute the income tax brackets prescribed in subdivisions (a) and (c). That computation shall be made as follows:

(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.

(2) The Franchise Tax Board shall do both of the following:

(A) Compute an inflation adjustment factor by adding 100 percent to the percentage change figure that is furnished pursuant to paragraph (1) and dividing the result by 100.

(B) Multiply the preceding taxable year income tax brackets by the inflation adjustment factor determined in subparagraph (A) and round off the resulting products to the nearest one dollar (\$1).

(i) *The income tax rates prescribed in subdivisions (a) and (c) shall be modified as follows:*

(1) *For any taxable year beginning on or after January 1, 2003, and before January 1, 2004, 1 percent shall be 0.80 percent, 2 percent shall be 1.6 percent, 4 percent shall be 3.2 percent, 6 percent shall be 4.8 percent, 8 percent shall be 6.4 percent, and 9.3 percent shall be 7.54 percent.*

(2) *For any taxable year beginning on or after January 1, 2004, and before January 1, 2005, 1 percent shall be 0.60 percent, 2 percent shall be 1.2 percent, 4 percent shall be 2.4 percent, 6 percent shall be 3.6 percent, 8 percent shall be 4.8 percent, and 9.3 percent shall be 5.58 percent.*

(3) *For any taxable year beginning on or after January 1, 2005, and before January 1, 2006, 1 percent shall be 0.40 percent, 2 percent shall be 0.80 percent, 4 percent shall be 1.6 percent, 6 percent shall be 2.4 percent, 8 percent shall be 3.2 percent, and 9.3 percent shall be 3.72 percent.*

(4) *For any taxable year beginning on or after January 1, 2006, and before January 1, 2007, 1 percent shall be 0.20 percent, 2 percent shall be 0.40 percent, 4 percent shall be 0.80 percent, 6 percent shall be 1.2 percent, 8 percent shall be 1.6 percent, and 9.3 percent shall be 1.86 percent.*

(5) *For any taxable year beginning on or after January 1, 2007, 1 percent shall be 0 percent, 2 percent shall be 0 percent, 4 percent shall be 0 percent, 6 percent shall be 0 percent, 8 percent shall be 0 percent, and 9.3 percent shall be 0 percent.*

(j) (1) ~~For purposes of this part, the term “taxable income of a nonresident or part-year resident” section, the term “California adjusted gross income” includes each of the following:~~

(A) For any part of the taxable year during which the taxpayer was a resident of this state (as defined by Section 17014), all items of *adjusted gross income* ~~and all deductions~~, regardless of source.

(B) For any part of the taxable year during which the taxpayer was not a resident of this state, *only those items of adjusted gross*

1 income and deductions that were derived from sources within this
2 state, determined in accordance with ~~Article 9 of Chapter 3~~
3 ~~(commencing with Section 17031 and Chapter 11 (commencing~~
4 ~~with Section 17951).~~

5 (2) For purposes of computing ~~“taxable income of a~~
6 ~~nonresident or part-year resident”~~ “California adjusted gross
7 income” under paragraph (1), the amount of any net operating loss
8 sustained in any taxable year during any part of which the taxpayer
9 was not a resident of this state shall be limited to the sum of the
10 following:

11 (A) The amount of the loss attributable to the part of the taxable
12 year in which the taxpayer was a resident.

13 (B) The amount of the loss which, during the part of the taxable
14 year the taxpayer is not a resident, is attributable to California
15 source income and deductions allowable in arriving at ~~taxable~~
16 ~~income of a nonresident or part-year resident.~~

17 ~~(3) For purposes of computing “taxable income of a~~
18 ~~nonresident or part-year resident” under paragraph (1), any~~
19 ~~carryover items, deferred income, suspended losses, or suspended~~
20 ~~deductions shall only be includible or allowable to the extent that~~
21 ~~the carryover item, deferred income, suspended loss, or suspended~~
22 ~~deduction was derived from sources within this state adjusted~~
23 ~~gross income.~~

24 SEC. 2. Section 17063.1 is added to the Revenue and Taxation
25 Code, to read:

26 17063.1. This chapter shall remain in effect only until January
27 1, 2007, and as of that date is repealed.

28 SEC. 3. This act provides for a tax levy within the meaning of
29 Article IV of the Constitution and shall go into immediate effect.